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THE FLIGHT OF CAPITAL

by Frank Chodorov

If the owners of capital had the sense they were born with, they would pick up their pennies and silently steal away. They would accept the verdict of the times, that they are pariahs, exploiters who deserve to be exploited, possessors of ill-gotten wealth who must be relieved of it. Since the verdict is confirmed by President Truman's current budget message, the logical thing to do in the circumstances is gracefully to retire from the black-balling society.

That is to say, anyone who is in possession of a competence sufficient for the balance of his expected days ought to allocate it accordingly and live out his life, as far as can be, outside the active market place. This would not constitute the ordinary retirement of a good and faithful servant, but the wise enjoyment of one's property before it is confiscated.

There is, of course, no longer much doubt about ultimate confiscation. The self-haloed planner has "cased" the job thoroughly and avidly awaits the propitious moment for its execution. Hence, the flight of capital at this time would simply be intelligently anticipatory individual action.

Taxation has already made the employment of capital a fatuous undertaking. If there is a return, the State cuts itself in liberally; if there is a loss the capitalist must absorb it all. That's a heads-I-win-tails-you-lose game which guarantees bankruptcy because of the inclination and the power of the State progressively to increase its "take".

That's the direct discouragement of capital. In an indirect way -- and much more viciously -- taxation spells the doom of capital production. The only function of capital is to facilitate the making of goods that people want and are capable of buying. The capacity to buy is simply the capacity of delivering other production in exchange.

II

However, one is unable to take to the market place what has been previously purloined by the highwayman. The fact that the highwayman labels his extortion with a pretty name like "social legislation" does

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not alter the economic fact of depleted purchasing power. The more "social legislation", the less effective demand for the goods capital can produce. Hence, the outlook for capital is -- uselessness.

When you examine the use to which much of American capital is being put now you see that it is already a useless commodity. What would happen to our capital-structure today if it were not being fed with orders for things people do not want, things they would not buy if they had the choice? Like atom bombs, battleships and swivel chairs for bureaucrats. The goods produced serve only the whims and comforts of the tax-collector, who pays for them with the taxes he collects from the capitalist. What the tax-collector takes out of the market place is not replaced with goods wanted. Hence the capital is employed in decreasing abundance. And the "profits" of the capitalist are purely of the paper variety, as he learns when he seeks to replace the capital used in making the unwanted things.

Thus, capital is now largely engaged in a treadmill economy. The point of exhaustion cannot be far away. Would it not be wiser to get out while the getting is good?

As a matter of fact, capital goes on strike automatically when the returns fall below the replacement point. Plants prefer idleness to producing what nobody wants; machinery would rather rust than wear out in aimless revolutions. Nobody plans it so; the absence of effective buyers in the market place automatically communicates itself to the engines of production and they slow down accordingly. This is a natural process that is far beyond the powers of the planner to avert.

But, why wait for this deterioration to set in? It has already begun, as you see when you try to turn "profits" into goods. But your accumulation of wealth still has something more than a fictitious value. Smart trading at this time can still turn your factory, your railroad, your desk and tool chest into claims on things you can eat, wear or read. Let somebody else chase the will-o'-the-wisp of profits in a tax-ridden economy. You know that political intervention in the market place means eventual strangulation, and what will your capital be worth then?

So, sell out. Consult the actuarial tables for an estimate of your life-expectancy, and your accountant for a reasonable figure on what your capital will realize. Simple division will then set the standard of your living for the rest of your days. Even if the standard is below what you are accustomed to, remember that the inconvenience is only mental, and that the pain is far less than you would experience from watching your capital wither away. And, if you put a worth on it,

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there is the gain in self-esteem; your dignity will rise when you no longer have to endure what Hamlet called the "insolence of office and the spurns that patient merit of the unworthy takes".

III

You will get along. You might put your capital into government bonds. Thus, you join forces with the tax-collector, and in these times that kind of alliance is profitable, even though immoral. The tax-collector has gratuitously stamped you a parasite, a non-producer, and there is nothing for you to do but accept the designation by becoming his partner. So long as there is any production which he can tax, you will have something to eat.

You need not worry about repudiation of the bonds -- at least, not in your lifetime. The State does not go in for that sort of thing -- for fear that its borrowing capacity may be undermined -- until the entire economy collapses; until there is not enough production to support the political parasites, the populace and the funded debt. It is only then that repudiation -- the act of national bankruptcy -- takes place; and it has been resorted to in the past only by nations subjugated by an invader. There is little immediate likelihood of your government bonds losing their income-producing quality.

Or, you can buy up some productive land and let it out to others to work. There will always be users; the irrepressible will to live will see to that. Land being the necessary complement of all production, you can be sure that somebody will pay you rent for the use of your site. Urban, rural or mineral land -- it makes no difference what you buy, provided it is desirable for production; it will yield you an income without labor. Under no circumstances, however, should you use it yourself, in any way, for that would put you again in the detested capitalist class. If you buy stocks or bonds issued by a land-owning company, be sure the company is not engaged in production, has no capital at all, does nothing but collect rents and royalties.

If, as an extra precautionary measure, you care to earn some wages as your forefathers did, by way of digging in the soil, so much the better for your health as well as your income.

How will Society get along? That's an interesting, though unimportant, speculation. Things being as they are, the wholesale flight of capital -- or, what is the same thing, the discouragement of savings and investment -- is inevitable and your individual strike can hardly retard or accelerate the process. It would be simply anticipatory.

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But, let us suppose that a hundred billions of capital should quit simultaneously, and with that sum the entrepreneurial skill needed to put it to work. What would happen then? Most certainly, Society would take on a different character; people will live, and if the accumulations of capital are no longer at work, the strong survivors will live by non-capitalistic production. What is known as primitive production -- people lived that way for many thousands of years -- will replace our highly specialized market place.

IV

For a while, of course, an effort will be made by newcomers to put new accumulations to work, and maybe the enraged planners will confiscate everything in sight in order to keep the tax-producing machinery in some sort of operation. But, the political intervention which put capital to flight will likewise shackle recovery. The only condition which could entice capital, new or old, into productive enterprise is the seemingly unthinkable condition of freedom; the State is not ready to grant that.

For the striking capitalists the scene would be highly interesting. They would actually see the indicated future of America during their lifetime. Maybe they would enjoy the vacuous thrill of saying "I told you so". From their vantage point of detachment they would see the mass of men, in their preoccupation with survival, giving up one spiritual and cultural value after another. The first call on human endeavor being the demands of the belly, there would be little to put into metaphysics, baseball, the latest fashions -- or even God. Meanwhile, the self-anointed will be riding herd and belching forth imprecations and promissory speeches, and living in a glory the resigned capitalists never dreamed possible.

The sight would not be pretty, but the prospect is interesting. It is the panorama of the future. Probably, no one now living could witness the final denouement, unless hastened by an atomic war, but it is possible from the evidence to project in one's imagination the complete collapse of civilization. This clear anticipation, if there were no other reason, should induce the suggested strike.

The admonition is sensible. Capitalists have nothing to lose but their chains, and they may gain such pleasure as a dying civilization affords. But the guts that created capital will prevent this alluring flight. It is the alternative of fight which will be chosen.

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Not Merely Gossip *A Supplement to* Human Events January 12, 1949

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By Frank C. Hanighen

The President's State of the Union message is less interesting for the philosophy and recommendations it contains than for the strategy by which Truman's socialistic aims are to be realized. The ideas are much the same as presented (thanks to Mr. Jay Franklin and his typewriter) in the campaign speeches; and even the Times editorial writer terms the design "the Welfare State". But the strategy has not been recognized, nor its subtlety appreciated. It should be noted that the President forbore to call for an excess profits tax. Yet he outlined a program, the cost of which must be met, if not by EPT, at least by sharp rises in corporation taxes. Two bites at a cherry -- and next year, an election year, EPT may be more effective firewater to feed voters. Meanwhile, industrial plant expansion and re-equipment will be slowing down. But the strategy is better illustrated in the motives behind another Presidential proposal, the one big surprise in the speech -- Government building of steel plants. The notion is not new; it has been the fond bauble of bureaucrats in these parts for some years. But, the thinking behind it demands attention.

At first glance, one is tempted to wonder whether it is magnificent strategy, or magnificent lunacy. The President was talking about the shortage of steel (now fast disappearing). Steel has indeed been in short supply and the industry has not expanded sufficiently to take up the slack, up to now. But there are few steel men in the country who do not know the answer. If export of steel and hard goods products under ERP were not so burdensome, the domestic steel supply would be easy. But why does ERP need steel? The answer is obvious: Europe's greatest pre-war steel producer, Germany, has been hors de combat, thanks to the Morgenthau policies, since the end of the war. True, in the past six months, German steel production has jumped from a yearly rate of three million tons to seven million tons. But, should this rise continue, it must stop at 10 million tons, the limit set by Allied agreement. Meanwhile, dismantling of steel plants goes on -- in the interests of Western European steel producers -- as well as of our bureaucrats. If Germany were producing the 18 million tons annually (or even less) of which she was once capable, little would be heard of an American steel shortage -- or of such notions as the President's proposal for Government steel plants.

The picture clearly looks a bit crazy, to a normal sensible person who fails to understand the psychology of planning. It may be recalled that the President in his speech bewails the "growing power of monopoly". But he fails to name the real growing monopoly -- Big Government. The clever monopolists in their warrens on Constitution and Pennsylvania avenues, know what they are doing and the strategy for doing it -- of course, under the rubric of fighting monopoly. When, in defraying the expense of the Welfare State program, taxes remove industry's expansion capital, then industry will produce less, shortages (the delight of bureaucracy) will appear, industry will be assailed for "creating an artificial scarcity" and will have to go to Government for financing. Nationalization will surely follow. Then we shall know what real monopoly means; and what Truman (or, rather, his planners) meant when he suggested that Government finance production facilities "if", as he put it, "action by private industry fails to meet our needs".

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Mr. Jay Franklin's interpretations of the foreign policy ideas of Mr. Truman have drawn that journalist into the spotlight. Whether he is an appeaser of Russia, or isolationist, or pro-Communist, have been subjects ardently but inconclusively debated in Washington during the past week. Whatever else Mr. Franklin may be, one

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thing stands above dispute: he is a New Dealer. Of course, there are unkind persons who ask what is the philosophic difference between a New Dealer and a Communist or Fascist. For our part, we do not believe that Mr. Franklin is either a Communist or a Fascist. However, he is an expert on the New Deal, and had a particularly good chance to watch the new Roosevelt regime in 1933 and 1934. Therefore, it is worth while to review some of his observations made at that time.

In the March, 1934, number of Vanity Fair, he suggested some similarities between Fascism and the New Deal: "Augusto Rosso, Fascist Italy's representative [Ambassador in Washington] is . . . in clover . . . He has seen . . . the creation through the NRA and the AAA of economic institutions which closely pattern the Fascist Corporative State. He has seen Roosevelt appeal to the spirit of loyalty, co-operation, patriotism and self-sacrifice which is the mainspring of Fascist Italy. He has marked the spread of Fascist ideas in America . . . So Rosso and his staff remain on the sidelines, chalking up the successes of Fascist philosophy in the New Deal." Indeed, Mr. Franklin apparently felt some sympathy for the diplomatic representatives of Fascist powers who were "on the spot" in Washington in those days, for we find him saying in the same article: "During the current Jewish journalistic pogrom against Hitler the German Embassy is the target of all the cranks in America, just as was the Italian Embassy in the early days of the anti-Mussolini hysteria."

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It may be news to some, but Uncle Joe Cannon is back in the rostrum of the House of Representatives. Uncle Joe was the despot who, for many years, kept the House well disciplined by rules which enabled him as Speaker, together with his hand-picked committee chairmen, to determine whether any bill was to be debated or passed. In 1910, however, a combination of agrarian Republicans and Democrats overthrew his power. Uncle Joe, of course, was a "reactionary" and few hymns in his praise have been heard for some time. But, in the past week, Speaker Sam Rayburn has literally taken his place. You'd never know it from reading some of the newspapers. According to their phraseology, Sam has "liberalized" the rules so that "reactionaries" in the Rules Committee cannot keep "forward-looking" legislation from being presented to the House.

The new rules permit a committee chairman to get a bill on the calendar (with House approval) if the Rules Committee procrastinates unduly. Sam has pretty well packed the chairmanships, but some one might get out of hand. What then? Well, the Speaker can still fail to "see" the chairman as he rises to call for his bill, and could "recognize" some less rebellious claimant for a speech. So, Sam Rayburn now holds power which lifts him to the niche once occupied by old Joe Cannon -- cursed be his memory by all "progressives". Of course, in seeking this convenient setup, Sam Rayburn (with the White House behind him) was trying to block a combination of Southern Democrats and Republicans in the Rules Committee, such as existed in the 79th Congress and held up Administration legislation. So, Uncle Joe Cannon has returned in spirit if not in the flesh and the "liberalization" of House rules has made a "czar" of Speaker Sam Rayburn -- at least until some sudden revolt and combination of "reactionaries" should really "liberalize" the rules. With our passionate curiosity about the usage of verbs and adjectives, we look forward with relish to such a prospect.

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We do not profess to know exactly whether or not the appointment of Acheson as Secretary of State spells a return to outright appeasement of Russia. The question is debated vigorously among diplomatic correspondents, and some of the most consistent critics of Soviet Russia say that Acheson is no appeaser. However that may be,

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Acheson's make-up and personal prejudices are such that perhaps in the long run his course will amount to the same thing. For one thing, he is unsympathetic to a clean-out of the Department to rid it of all persons suspected of fellow-traveller leanings. If these remain, they will inevitably influence his course, in the classic manner of bureaucrats.

Next, even on the assumption that Acheson is a fiery opponent of Soviet expansionism, he is likely to favor "Socialist" rather than non-Socialist anti-Soviet elements in Europe and elsewhere. He is said to have a deep sympathy for the British and French Socialists. He was also, it may be recalled, one of the authors of ERP, and in this classification he is a "spender" rather than a "push-and-prod" ERP proponent. He is therefore likely to favor the old Morgenthau ideas in the occupation policies in Germany and Japan, to support the Marxians in Britain and France -- and generally to promote the inefficient and expensive policies of those elements. That means further weakening of the economies of Western European countries and lowering of their resistance to Communism in the cold war. And that spells appeasement in the long, if not the short, run.

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The appointment of Acheson, coming on top of the squall over membership in the new Senate Foreign Relations Committee, delivered a strong, if not fatal, blow to the bi-partisan policy. When the Senate Democratic leadership gave only five out of 13 seats to the Republican minority, instead of six, Senator Vandenberg, the great exponent of the bi-partisan policy, suffered a stinging defeat. As for the Acheson appointment, it is known that the Michigan Senator favored Lewis Douglas and does not care for Acheson. Some readers chided us for our caustic remark, in November, when we foreshadowed unhappy days for the bi-partisan policy and Senator Vandenberg. At that time we said: "The current mellow portrait of a lofty statesman might then be replaced by a crude caricature of a man-played-for-a-sucker." Many Republican politicos, smarting from the campaign defeat, must look at the Michigan Senator in much this way. At the coming GOP National Committee meeting, the bi-partisan policy will undoubtedly be in for a very critical review, to say the least.

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Mr. Arthur Krock reported in the New York Times (January 11) that the question of a constitutional amendment arose in the Hoover Commission on Government reorganization. The Commission was urged to recommend an amendment to the Constitution providing that treaties be submitted "for advice and consent" to both Houses (instead of only the Senate) and that a concurring vote should be by a majority of both bodies. Various impatient souls have long agitated for such an amendment (the sentiment was strong just before the UN Charter was submitted to the Senate). It has been charged that the two-thirds Senate vote now required was unfairly employed in the rejection of the League of Nations after World War I. (HUMAN EVENTS published an article on this subject, The Two-Thirds Rule, by John T. Flynn, in January, 1945.) When the proposal was made the other day to the Hoover Commission, prominent members of the Commission felt that such a recommendation was beyond the purview of the Commission. Thus far has this story been published in the Times. But the rest of the episode has not so far been reported in the press. As discussion on this line proceeded, some Commission members made a suggestion. Perhaps, they said, the Commission could consider such a recommendation if it were so phrased that the two Houses would have the right to consider and vote on any Executive moves in foreign affairs, such as the Atlantic Charter. When this offer was made, the proponents of a constitutional amendment hastily dropped their proposal.

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Book Events

Prisoners of War. Washington, D. C. The Institute of World Polity; School of Foreign Service, Georgetown University. $1.50. Reviewed by J. M. Lalley.

This is an abstract of a series of discussions among a group of students of the School of Foreign Service, most of whom have been war prisoners and one of whom is a survivor of the fearful Bataan death march. The remaining members of the group are veterans whose Army service brought them into contact with enemy prisoners here or overseas. The discussions were thus unique among academic studies of the question, in that each participant could speak from direct and intimate experience.

The chief sanction, apart from custom and regard for neutral opinion, of international rules concerning the treatment of prisoners has been the possibility of reprisal. The captives taken on each side were in a sense hostages for the good treatment of prisoners held by the other. In some degree this factor was still operative in the recent war as between Germany and Italy on the one hand and Great Britain and the United States on the other. Both the Japanese and Russian governments, however, were wholly indifferent to the fate of their troops who fell into enemy hands. At the same time positive encouragements to cruelty arose out of the very character of the war, and the magnitude of the forces engaged. If hundreds of thousands or millions of prisoners are to be sheltered, fed and paid according to the same standards as the military forces of the government which holds them captive, this has to be at the expense of the civil population. Civilians against whom a ruthless economic war is being conducted by bombing and blockade will not cheerfully consent to further sacrifices in the interest of prisoners belonging to the nations which are waging the war. Indeed the warfare of propaganda, which obliges all governments to exhort their peoples to ever greater hatred of the enemy, makes it virtually impossible to demand such sacrifices. The existence of fifth columns, resistance movements and elaborately organized intelligence operations, obliges the military to have regard not only for the enemy in front or overhead but also for the saboteur, the partisan guerrilla, the enemy liaison agent and the enemy fugitive within the lines. As the importance of these elements increases, the distinction between soldier, spy and franc tireur becomes more difficult, thereby affording governments a pretext for denying prisoner of war status to captives, or for delay in according it to them. There was also a disposition to exclude from this status certain categories of regular soldiers, such as paratroopers and fighter pilots taken behind the lines. Where the civilian population has been the principal victim of air operations, its fury against captured airmen is likely to be extreme. Several American flyers were actually lynched in Germany, and one of the participants in this discussion very narrowly escaped that fate. The right of a prisoner of war to escape, if he can contrive an opportunity, has long been recognized in international law; but because of the difficulty of guarding large masses of prisoners it became expedient to discourage attempts at escape by rigorous punishments, including death. According to the testimony in this book the Japanese systematically tortured and killed all recaptured prisoners and this was sometimes also the practice in Germany.

All these students naturally have definite opinions about what sort of regulations will be necessary for the protection of prisoners in future wars; but they are led to the melancholy conclusion that any new international agreement would be no more capable of enforcement than the Geneva Convention. Thus they feel that the abuse of prisoners must be placed in the category of war crimes to be punished after the cessation of hostilities; but here the difficulty is of course that no government powerful enough to wage total war is likely to do so unless it is confident of victory and therefore of becoming judge of all war crimes.

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